

Newsletter

Simple.
Smart.
For you.
For life.



105 Sea Hero Road, Suite 1, Frankfort, Kentucky 40601-5404

Q-704-0106 • January 2006



The tax advantage – tell a friend!

Think about the people you work with. Do they daydream about retirement like you do? They probably do. (It's okay, we all daydream about it!)

If you know a friend or co-worker who is not participating in a Kentucky Deferred Comp plan, it's a good time to share your experience with them. And since tax season is just around the corner, a tax-deferred retirement plan is something they might like to hear about.

With Kentucky Deferred Comp you experience a unique tax advantage. That's because a supplemental retirement account is tax-deferred. You don't pay taxes on the money you contribute. When you withdraw money in the future, your withdrawals are taxed as ordinary income. This is a unique tax advantage you're benefiting from because all of your contributions and any earnings have the opportunity to grow federal and state tax-deferred.

So do something nice for the people you work with every day. Give them your local KY Plan Rep's name and phone number. Tell them to visit www.kentucky-dcp.com, or just cut out this article and give it to them. Of course there are no guarantees. Investing involves market risk, including possible loss of principal.

Consider the advantages of Kentucky Deferred Comp!

Here are a few other things to share with friends and co-workers to help explain why they should be enrolled in Kentucky Deferred Compensation:

- ▶ It's easy – contributions are automatically deducted from your pay
- ▶ Contributions are pre-tax (federal and state) – creating less impact on your take home pay
- ▶ Contributions and any earnings are (federal and state) tax-deferred – so there's more growth potential. *Withdrawals are taxed as ordinary income.*
- ▶ You choose your deferral amount and can change it at any time
- ▶ Your money can stay (federal and state) tax-deferred – even if you separate from service
- ▶ You get personal retirement education anytime you need it – now, and when you retire

COMING SOON! A better way to look at your statement

Helping you use the information you receive each quarter to better manage your investments is one of our guiding missions. The Kentucky Public Employees' Deferred Compensation Authority is pleased to announce that, starting with the First Quarter of 2006, your quarterly account statement will have a new layout, more information, and colorful account charts.

The statement will combine our newsletter with your personal statement. It'll be bright, easy-to-read and loaded with educational information you can use right away. We're readying it now. Watch for your new statement in April 2006!

Governor appoints new board member

On Dec. 12, 2006, Governor Ernie Fletcher appointed Lonnie R. Anderson as the newest member of the Board of Trustees (Board) of the Kentucky Public Employees Deferred Compensation Authority (Authority).

Mr. Anderson, who currently serves as the Whitley County Superintendent of Schools, will represent the non-state government employers on the Authority's Board. He replaces long-term Board member, Eugene Binion, former Superintendent of the Elliot County Schools, who resigned from the Board earlier in 2005.

Mr. Anderson will serve the remainder of Mr. Binion's term, which will expire January 16, 2007.

Fixed Contract Fund Rate

A blended net crediting rate that will yield **4.30%** will be credited for the First Quarter of 2006. The rate was **4.20%** for the previous quarter.

Expo workshops are now online!

New eWorkshops are available at www.kentuckydcp.com!

The Authority is delighted to announce that our exceptionally popular Expo Workshops are now available online to all participants. These eWorkshops are an important element of the Authority's educational offerings. They are our newest Retirement Readiness education component, and you can view them on the web at your leisure.

Termed eWorkshops, and patterned after the workshops given by Kentucky Plan Service Representatives at participant meetings and our famous Expos, these tools are easy-to-navigate (in fact, most of the navigation is done for you!) and a quick, effective way to learn about planning for your retirement future, or reinforce what you've learned along the way. Even better – you can access the Kentucky web site and all eWorkshops from home and involve your family members!

The Authority's goal is to help you grow your account so that you are where you want to be financially at retirement. These concise, but information-packed, eWorkshops are just one more way that the Authority offers its historically outstanding service and resources to help you in that endeavor.



Participants at the 2005 Expo enjoy an Authority workshop.

The new eWorkshop topics include:

- **Digging Up Dollars: How to Reduce Debt**
- **Invest in Your Future with Deferred Compensation**
- **How to Use Asset Allocation**
(requires your account ID and password)
- **Digging Up Dollars: How to Create a Spending Plan**
(requires your account ID and password)



The eWorkshops can be found in the Investment Education section of the Kentucky Deferred Compensation web site, www.kentuckydcp.com.

How many retirement accounts do you have?

Having multiple retirement accounts doesn't necessarily mean that you are well-diversified. One risk you face by having numerous retirement accounts is that you could be invested in only one or two asset classes and not even realize it.

Everyone knows the importance of a well-balanced diet for your health. Just like a well-balanced diet can help you perform your best, your investment portfolio can also benefit from being well-diversified. Keep in mind that diversification does not assure a profit and does not guarantee against loss in a declining market.

One way to make sure you have a properly diversified account is to manage your retirement dollars in one place, instead of using multiple accounts. Often you can combine many of your retirement assets into your Kentucky Deferred Compensation account.

When you combine your retirement dollars into your Kentucky Deferred Compensation account, you will easily see how your assets are allocated. You'll also be able to

- Manage all your retirement assets in one place
- Have one point of contact for your retirement questions
- Potentially reduce the fees you pay

It is all about keeping things simple!

Deferred compensation plans and other types of qualified retirement plans are all different, including fees and when you can access funds. You should carefully consider all differences before making any changes.

Assets rolled over from a qualified plan, an IRA or a 403(b) plan may be subject to a 10% penalty tax if withdrawn before age 59½. There may be surrender fees charged

when you move money out of your current account.

Kentucky Deferred Compensation can help you meet your retirement goals and keep your retirement planning convenient – no strings attached. You don't need to be an expert to combine your assets – we take care of the details. Just think about how one account can reduce the paperwork, mail volume, and all that aggravating hassle, then give us a call.

In fact, why not call your local representative today? Remember, when you combine your retirement dollars with us, we'll look at your account, help you review your asset allocation, and assist in making any changes you feel are in your best interest.

How much can you invest in 2006?

It's 2006. You're another year closer to retiring. This coming year, you can invest as much as \$15,000 (or more with a catch-up provision) tax-deferred per Plan. This table shows the maximum amount of money you can invest into your Kentucky Deferred Compensation account in 2006. Please note that you cannot use both the Age 50+ and Special 457 Plan "3 Years Prior" catch-up provisions in the same year; however, you may be able to invest the maximum in both Kentucky's 401(k) and 457 Plans.

If you are...	Under age 50	Age 50 or over	3 years prior to your full retirement year*
And you are paid...			
Weekly (52 pays)	\$288.46	\$384.61	\$576.92
Bi-weekly (26 pays)	\$576.92	\$769.23	\$1,153.84
Semi-monthly (24 pays)	\$625.00	\$833.33	\$1,250.00
Monthly (12 pays)	\$1,250.00	\$1,666.66	\$2,500.00

Pay yourself more by increasing your deferral!

The money you contribute to your account and your potential earnings can work harder for you now and let you pay federal taxes and possibly state taxes on your deferrals (and their earnings) as you withdraw from your account later, when you may find yourself in a lower tax bracket. It makes good sense to pay yourself more and benefit from your account's unique tax advantage.

Chart assumes that you qualify for the maximum deferral limit of \$15,000 in year 2006.

**3-year catch-up for 457 plan only*

Excuses, excuses, excuses...

A recent study* compared three investing concepts – asset allocation, mutual fund performance and contribution rate – from 1994 to 2004 – to discover which had the most impact on the value portfolio. Guess which one did? Increasing your deferral rate had the most impact. Investing more may be one excellent way to end up with more.

So what's your excuse for not increasing your deferral rate? If it's because you never have extra money to invest, try to think of one or two "luxuries" you could give up in 2006. Maybe it's passing on the vanilla latte that ends up costing you more than \$2 every day. It could be watching a movie without ordering the \$6 popcorn and drink. Or maybe it's bringing your lunch with you to work a couple of days a week.

Most of us have at least one unnecessary luxury. Which "luxury" could you give up so that you can invest more for your retirement? List one or two, then give Kentucky Deferred Compensation a call.

Maybe you can't defer the max at this point in your life, but you probably can increase your deferral to your account. Even increasing your deferral by just 1% of your salary may make a big difference over time. The longer your money is invested the more opportunity it has to grow. There are no guarantees, of course – investing involves market risk, including possible loss of principal.

Invest more today!



Call your local representative or visit your account's web site to request a Participation Agreement.

Don't be in such a hurry!

One of the best investment plans you can have as an investor is patience.

One term the financial industry likes to use a lot when talking about investing for retirement is "compounding." Compounding goes hand in hand with how long you invest for retirement. You invest so that your money has the opportunity to grow over time. And usually, the longer you invest the better chance your retirement income has to grow.

Compounding is simply your money earning interest, and the combined balance earning more interest, over and over again over a period of time. Time has power when you're investing for your retirement. So, use time to your advantage – be patient, give your retirement account all the time it needs to grow.

Investing isn't just about being patient, though. It's about investing intelligently. Naturally the more you invest the more your account has a chance of growing over time. There are no guarantees, of course – investing involves market risk, including possible loss of principal.

You've already started your Kentucky Deferred Compensation account. Each year, inflation (the costs of goods and services) and your living expenses increase – shouldn't your deferral increase too in order to keep pace?

Increase your deferral in 2006 and then practice patience; let time do its thing. Call your local representative or visit the Authority's web site today to download a Participation Agreement so you can increase your deferral for 2006.

Effective January 1, 2006 non-periodic payouts will be limited to four per participant per plan per year. The Authority is making this change in order to help control costs for all participants..

**Source: Putman Investments, 2005, Study covered 1990-2004 and is based on data provided by Lipper. For more information on this study, visit www.kentuckydcp.com*

Don't stop thinking about tomorrow

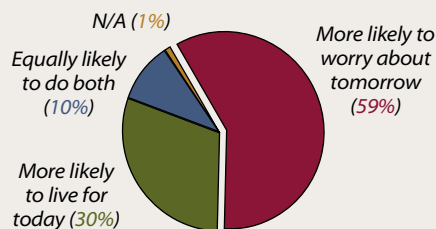
You might think that you're going to work almost your whole life, before you retire. But as life expectancy continues to expand, most people are facing a longer retirement than ever. A woman age 65 has a 19% chance of living to 95 years old. And a man has an 11% chance, according to the American Academy of Actuaries.

People are living longer. But most people don't factor that in when they're planning for retirement. Experts estimate that most people need between 75-90% of their current income to maintain their lifestyle in retirement. And don't forget to factor in what tomorrow may bring – things like steadily increasing health care costs and lifestyle considerations (extended care expenses, for example). In retirement, your expenses will widely change over the years, yet your retirement income may not!

So what can you do today to prepare for tomorrow? Increase your deferral. Even do the max in one or both plans! Call your local representative or visit our web site at www.kentuckydcp.com to request a Participation Agreement.

Worried about the future?

When it comes to their finances, many American workers say they are likely to worry about tomorrow.



* Source: Employee Benefit Research Institute and Matthew Greenwald & Associates, Inc., 2005 Retirement Confidence Survey.

Board actions taken Nov. 16, 2005

Meeting at their regularly scheduled quarterly Board Meeting, the Board of Trustees (Board) of the Kentucky Public Employees' Deferred Compensation Authority (Authority) voted unanimously to accept the June 30, 2004 and 2005 Plan Audit Reports from Moore Stephens Potter, LLP, the Authority's outside auditing firm. Both reports were "Clean" audits; that is Moore Stephens Potter, LLP noted no material weaknesses in their audits.

The Board also voted to reinstate the minimum deferral requirement. A minimum deferral of \$30 per month for new participants became effective January 1, 2006. This action also applies to increases/decreases made on and after January 1, 2006. Individuals already participating with the Authority prior to this date will **not** be required to automatically increase their deferral to the new minimum; however, these participants may wish to consider increasing the amount of their deferral to \$30 per month.

This minimum deferral was implemented for a number of reasons, foremost of which

is that the Authority has found participants who begin deferring below this level often do not increase their contributions over time, thus making the likelihood of their achieving a meaningful deferred compensation account quite remote.

Furthermore, the Authority has experienced a tendency for these participants to make hardship and unforeseeable emergency withdrawal requests. Such actions are costly to the Authority (and, therefore, other participants) and are not beneficial to the participants making such requests.

EFFECTIVE 1-1-2006

Minimum Deferral Table

Weekly Pay Modes\$7 per pay
Bi-Weekly Pay Modes \$14 per pay
Semi-Monthly Pay Modes	... \$15 per pay
Monthly Pay Modes \$30 per pay

For additional information, please contact your local Marketing Representative, or telephone the Frankfort Marketing Team at 800.542.2667.



New Web tools now available

Have you tried our Interactive Participation Agreement on the Web? We've made it easier than ever to increase the amount of your deferral, change the funds to which your money will be invested, or reinstate your contributions (if for some reason you have stopped deferring).

Simply click on "Forms" on our web site (www.kentuckydcp.com) and then click on "Participation Agreement". The form can be completed on line. Once you have filled in all the information, print it out, sign and date at the bottom and either mail the Participation Agreement to our office or fax it to us at 502.573.4494. It's that easy. Why not increase your deferrals and give it a try today!



Contact Us!

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Have a terrific 2006!!